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THE WESTERN GRAIN TRANSPORTATION ACT AND SASKATCHEWAN'S COMMUNITIES: CHALLENGES AND OPPORTUNITIES

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THE WESTERN GRAIN TRANSPORTATION ACT AND SASKATCHEWAN'S COMMUNITIES: CHALLENGES AND OPPORTUNITIES

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EXECUTIVE SUMMARY

With the introduction of Bill C-155, the economic climate of Western Canada was to have changed dramatically. Changes did take place but they were not as dramatic or as complete as they had been planned. Economic opportunities that many forwarded, such as the livestock and oilseed industries, failed to materialize due to the incomplete nature of the changes to the Crow Rate.

And while the planned tools of economic advancement failed, costs for producers continued to rise while the value of their greatest asset, their lands, fell. Such a situation is causing a crisis in many rural communities. The small family farm is being replaced by large, high cost operations as economics of size become the only way to grow grain for export and still maintain the same level of profit as before Bill C-155. Larger farms represent a net loss of population base for many small communities, in essence their very survival is at stake.

The changes caused by the introduction of Bill C-155 are not only negative however. As people become more aware of the worldwide economy and the products, they will see that we must produce what we can sell, not sell what we produce as we do now. We must produce livestock and grains to suit the market place. This is very difficult since it is hard to change attitudes, but it must be done.

Likewise we must stop exporting raw foodstuffs and begin to establish processing industries in areas where we enjoy a competitive advantage. One area where we do so is the processing of high gluten grains. These grains will become more attractive following the drop in the world market for hard wheats and the rapidly increasing demand for industrial starches and sugars.

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OBJECTIVE

The purpose of this study is to examine the effects upon Saskatchewan's communities of the Western Grain Transportation Act (Bill C-155) and how these communities may best protect themselves from, or take advantage of, the new economic situation that prevails as a result of the Act.

It is not the purpose of this study to examine in detail the effects of the Crowsnest Pass Agreement removal on the Western Canadian economy. Nor is it the purpose of this study to look at the problem of rural decay. As is noted later both these issues are being examined in depth by others. This paper was written in an attempt to link together the two issues in such a manner that those affected by them can understand and hopefully deal with the challenges and opportunities presented.

With the passage of Bill C-155, the WESTERN GRAIN TRANSPORTATION ACT, a number of obvious effects could be predicted. Producers of cereal grains previously covered by the Crowsnest Pass Agreement would have to pay more to have their grain shipped to market. The cost of shipping would increase from approximately $5.00 in 1983, to $9.90 a tonne in 1990.[1] While the effect on the individual producer is not overly severe, the provincial economy suffers due to its heavy reliance on wheat.[2] In addition to the increases introduced, the government placed a limit on the amount of grain shipped for export that would qualify for the statutory rate. For each tonne over this limit of 31.5 million tonnes, the producer will have to pay an additional $9.00 per tonne.[3]

The legislation provides a 'safety net' that makes sure the producers share of the freight rate does not exceed a fixed percentage of

the weighted average price of six major grains. This percentage will increase from 4 percent in 1984 to 10 percent in 1988.[4]

A number of new products were brought under the statutory rate provision. These products include canola and seed oil and meal, as well as sunflower seed and oil, corn, mustard seed, canary, triticale, dehydrated alfalfa, and peas, beans, and lentils and their derivatives.[5]

The Act also established two administrative and regulatory bodies, the Grain Transportation Agency and the Senior Grain Transportation Committee. The former is responsible for promoting and monitoring railway performance and investments. The latter is responsible for cost determination and forecasting as well as the establishment of the rate scale and various monitoring functions.

The most economically significant section of the Act dealt with the payment of the annual railway shortfall of 659 million dollars (1981 dollars). This payment is made directly to the railways with consequences detailed further in the study.

The changes made by Bill C-155 also had a number of less visible effects on Saskatchewan and the other prairie provinces. With the decline in farm incomes resulting from higher costs many feared the trend of rural decay (Sask. is the only place in Canada besides the Yukon that continues to experience a rural→urban shift in population)[6] would continue or indeed accelerate.

The value of farmland continues to decline to a significant degree as a result of the Crow Rate removal. (Many argue it was outrageously high and was bound to come down.)[7] The producer finds himself in a no win situation as a result; increased transportation costs, decreased net

worth, depressed commodity prices and high capital costs all combine to make farming less of a business and more a desperate gamble.

Overall the long term effects of the Crow Rate removal can prove beneficial provided we correct certain economic mistakes and we decide to embark on a new path so far as the economy is concerned. This is not a philosophic warning, we are losing $85 million dollars a year net from the Western Canadian economy as a result of the current solution to the problem of western grain transportation.[8]

WESTERN COMMUNITIES AND THE FUTURE

The introduction of Bill C-155 and the subsequent demise of the Crowsnest Pass Agreement has left an indelible mark on the face of Western Canada. The traditional economic and social order of the prairie provinces has been changed significantly, presenting the people of the region with a number of difficult decisions for the future. Some of these decisions had to be made eventually, with Bill C-155 simply hastening the process. Such is the case when one is examining the question of what can be done with regard to the dying out of many communities.

During the "Crow" debate leading up to the introduction of Bill C-155 a great deal of time and effort was spent speculating on what would happen to small communities when the Crow Rate was removed. Predictions of doom, as well as those of a great economic resurgence, were made with a plethora of supporting data. The reality one year after the introduction of Bill C-155 is a rather tenuous situation; neither extreme was reached but both remain possible.

Part of the uncertainty as to the impact of Bill C-155 on prairie communities is due to the fact that the bill itself is a political

compromise that is contradictory and self limiting; unable to deliver the results intended. Producer groups in both Western and Central Canada (more precisely Saskatchewan and Quebec) fought for the retention of the Crowsnest Pass Agreement for completely different reasons. The end result of this pressure being the delaying or non-introduction of recommendations made in the Hall Commission Reports and/or the Gilson consultations.

Among the recommendations made by Gilson that were not followed was that of who was to receive the annual federal grain transportation subsidy, the producers or the railways. Gilson said that initially the railways should get all of it with the producers getting a little bit each year until 1990 when their share would be 80% of the subsidy.[9] Pressure by Quebec livestock producers combined with an uncertainty as to how they would pay producers caused the government to compromise the decision; the railways would get it all in return for performance guarantees with a complete review of the Act in the fall of 1985. As a result, many of the promises made of a great resurgence in the Western livestock industry have a hollow ring.

Besides being a political issue, the shortfall payments are an economic issue as well. Agricultural economists are united in the belief that the net effect of the current method of payment - all to the railways - is costing Western Canada many millions each year.

Since farmers are not selling their grains locally to the degree anticipated, costs for feedlot and cow calf operators have not declined substantially enough to put back into the Western economy the income lost by increased transportation costs. Combined with this is the long

term horizon we must use when speaking of increasing capacity and efficiency of our rail system.

Not only is the physical upgrading of the western rail system (i.e. new rolling stock, double tracking, tunnels, etc.) expensive, it is a long term process. This does not mean that the system cannot be made more efficient while waiting for these improvements to "come on stream". One way to do so is to deal with the problem of dockage and delays it causes in the loading of grains at the terminal. It is the farmer who pays for the delays in loading at the port terminals. The increasing transportation costs make shipping dockage an even more expensive problem, not only does the producer lose money at the collection point but he pays the cost of hauling the dockage itself. An opportunity exists here for anyone interested in providing a mobile grain cleaning service. The Weyburn Inland Terminal will pay $60.00 per tonne of dockage. This includes dockage in grain hauled to the terminal that is in excess of 1-3% of the total.[10]

The dockage itself provides a valuable source of animal feed, something the terminal companies have been aware of for years. Shipping clean grain helps to speed the loading process at the ports and it is particularly crucial to the underutilized Port of Churchill.[11]

But while most peoples' attention is upon how we exploit our produce, very few focus on what we export. We in Western Canada and in Saskatchewan in particular have what is known as a hard wheat mentality. We take immense pride in exporting the best high protein wheat in the world. The same applies to other crops and to the red meat industry as well; we grow the best no matter what it costs us.

According to Professor Jack Stabler of the University of Saskatchewan's Department of Economics and Political Science, our hard wheat mentality is doing more than making us less competitive abroad. It is a major reason why so many small towns and cities are dying out in Saskatchewan! Professor Stabler says that death of many small towns is primarily due to the loss of population, the cuase of which is quite simple, the disappearance of the family farm.

The family farm of 40 years ago was a more or less self contained unit (i.e. it combined livestock, forage and grain crops together). Such a farm was not usually very large (e.g. ¼ to ½ section), which meant the population density of any given area was usually quite high. Small towns grew up everywhere to service this population base. As the trend towards larger more efficient farms continued and more people moved to the large towns and cities, small towns began to die off from want of population. Often many small communities survived simply because of a certain service offered there. This sometimes was little more than a branch line with a couple of elevators.

The spectre of rail line abandonment was often very real for many small communities who saw it as the final blow whereas the real damage had already been done. Professor Stabler sees a similar situation in the Crow debate; the debate focused on the retention of a statutory freight rate when it should have focused on the more important issue of moving away from "old" ideas.

Professor Stabler says that farmers with a hard wheat mentality are very reluctant to switch over to crops that will provide them with a higher return and that this reluctance is a major factor in the continuing

decay of many communities. Farmers see new crops such as lentils, soya-beans, as being risky and poorly supported by the ag-service community. They are also reluctant to grow or cannot yet grow what is thought of as "second rate wheat" -- the high starch low protein "soft" wheats.

Yet it is from soft wheat that our competition comes from on the world market. In order to compete with the cheaper higher yielding soft wheats we must undercut our own prices, thereby reducing the return to the producer for his premium product. The producer responds to losses in his net income (i.e. lower prices, higher costs) by increasing the effectiveness of his resources. This means more fertilizers and herbicides go on his land to increase his yields. He is also changing the way he farms his land in order to better utilize it. Reducing or eliminating the amount of land put to summerfallow and the use of more sophisticated agricultural technology also help to recover the loss of income from his produce.

But the solution most often used is to increase the size of the operation. Since most farmers have not reached the limit of their labour productivity (due mainly to the massive and sophisticated machinery being used) they can get back their lost earnings by farming more land. With economies of <u>size</u> the producer can recover his former profit margin.

It is in this sense that the removal of the Crow rate has proven detrimental to many communities; it has simply hastened the process of decay. Professor Stabler has been studying the process of community decay for a number of years, and he is currently engaged in a detailed study of the impact of the Crow rate removal of this process.

The solution according to Professor Stabler as well as the Economic Council of Canada's 1984 report Western Transition is for us to market what the world wants, not what we feel it needs. This means growing crops such as lentils and soft wheats that are in high demand by Third World nations. It also means raising cattle the way our customers want it; lean beef for the massive California market, highly marbled Kobe beef for the lucrative Japanese market, and cheap grass-fed beef for South East Asia.[12] We can no longer afford to market what we produce, we must produce what we can market.

Convincing producers of this is an enormous task, one that cannot be done by pointing out the negative aspects of the current economic situation. There are tremendous benefits which can be realized by individuals and communities alike from the removal of the Crow rate, all that is necessary is the right attitude.

Business Opportunties

Since the introduction of the Western Grain Transportation Act it has become apparent that many new business opportunities exist. These opportunties exist in three areas:

1) Service industries
2) Manufacturing
3) Value added processing

SERVICE INDUSTRIES

As the rationalization of the western rail system continues, hastened to a fair degree by Bill C-155, the demand for consumer and farm services will increase in these communities that are, or become

collection points. Superior services can convince a farmer to haul his grains/cattle further than is strictly speaking, economically sound.

The presence of an important community service, for example, a pharmacy or a skilled and equipped mechanic, can often mean the difference between survival and death for a small community. With the introduction of the Western Grain Transportation Act, the need to change the way we farm became essential. It is likewise essential that western communities recognize that change. The need for fertilizers and herbicides will increase as farmers seek the most out of their land. So, too, will the need for farm management and consulting services.

The need for computing and financial management services may not seem critical but it is. As the new generation of farmers/ranchers take over from their predecessors they bring with them skills developed in universities and technical schools that rely heavily on sophisticated equipment and techniques. Without the necessary tools and supporting infrastructure they cannot take advantage of their training, and we will lose our chance to regain a competitive edge in our farm exports abroad.

Likewise the need for equipment that best suits the new farming techniques and new crops will increase. Farm machinery dealerships must be willing to stock, service and encourage the use of machinery necessary for many non-traditional crops. Nothing will turn a farmer off from trying a new crop faster than if he knows he cannot get the machinery and service necessary. A dealer who takes the risk can anticipate high returns if he encourages the growing of new crops by providing the equipment and the service required.

MANUFACTURING

Similar opportunities await farm equipment manufacturers. Because many new crops, for example lentils, require specialized planting and/or harvesting machinery, farmers are often discouraged by the high cost of importing such machinery. Manufacturers of farm implements and machinery will find that while the market for such machinery is small it is growing steadily as farmers begin to face the economic choices of the future. Government incentives for manufacturers and venture capitalists make such a move even more attractive now.

VALUE ADDED PROCESSING

Saskatchewan has always been a province whose economy relies primarily on agriculture. Recently the oil and mining industries have begun to cut into that reliance but regardless of their contribution we in Saskatchewan remain "hewers of wood and drawers of water". We have been unable to create and/or attract a great deal of manufacturing for a number of reasons:

1) we lack the trained manpower and supporting infrastructure necessary,
2) we often lack capital, and most importantly
3) we have lacked any competitive edge in the market place.

By saying Saskatchewan lacks a competitive edge, we mean that there are few ways in which we can be superior in the manufacturing and sales of most products. Saskatchewan has a relatively small domestic market compared to Ontario's for example. Often it is apparent that even if we can make something at a lower cost than elsewhere, the costs involved in transporting the product are prohibitive, due to Saskatchewan's geographic isolation in terms of distance to markets.

Since we lack a competitive edge like the cheap labour of Hong Kong, the efficiency of Japanese firms, or the huge markets of the American coasts, we must turn to our only "natural" advantages: our ability to produce cereal grains, oilseeds and beef cattle. As mentioned previously, we can no longer afford to grow the "best" wheat or the "best" cattle. We must tailor our agricultural exports to fit our customer's needs. The same dictum must apply to our processing industries.

Both the red meat and oilseed processing industries were to be the focus of massive development and expansion in the wake of the Crow Rate removal. In the meat industry, the scenario was to go as follows. Farmers would be enticed by increased shipping costs to sell their grain domestically for feed; lowering the feedlot operator's costs; causing a greater demand for feeders from cow calf operators. With the increase in supply packing houses were supposed to expand (due to lower input costs) and modernize helping to make Canada more competitive on the world markets. Likewise oilseed producers and crushers were to benefit from the inclusion of most oilseeds and oil meal under the revised statutory freight rates.

Farmers, it was thought, would switch to producing oilseeds in order to make up for reduced revenues for their grain. The oilseed crushing and processing industries were going to take off due to a greater and cheaper supply causing a need for more plants. Unfortunately, such has not been the case for either the meat or oilseed industries.

The expected resurgence of the meat packing industry has not occurred because of two reasons:

1) the politically motivated decision to pay the railroads the $659 million annual shortfall instead of the farmers has reduced the expected influx of cheaper feed grains on the market, since the producer may still be getting more by exporting, and

2) a turbulent labour situation in Canadian packing houses along with an incredibly competitive, downsized U.S. industry have combined with specialized, shrunken domestic markets to slow the anticipated increase in meat packing and processing activity.[13]

This is not to say that opportunities do not exist in the oilseed and meat packing industries, only that opportunities are limited in the established sectors. Canadian oilseeds and oil products in particular have faced a great deal of competition on the world market from palm and soyabean oil.[14] This increased competition may actually cause the Western Canadian oilseed processing industry to reduce the number of crushers already existing. Increased competition and the need to update facilities has had a similar effect on the meat packing industry.

Tremendous opportunities do exist, however, in the processing of high yield "soft" grains. As has been mentioned before these high yielding grains can provide a good rate of return for the farmer and help Canada's competitive position in the world marketplace. Even given the government imposed "freight ceiling" of 31.5 million tonnes for export, (after which the full cost of shipping is paid by the producer) production over this amount, as is likely were soft wheats grown more extensively, can still be utilized in Western Canada.

While soft wheat is low in protein it is high in starches which have a wide variety of uses in both the food and manufacturing sectors.

Demand for starch (glucose) is growing at a phenomenal rate. According to John Cross of Philom Bios, most of the industrial starch used today comes from corn. He says that demand is already outstripping supply and that new sources must be found. Mr. Cross also states that demand will increase 10 times in the next 15 years.

This same enthusiasm for the opportunities present in the processing of high starch crops is shared by Mort Satin of Pro-Star Mills in Saskatoon. He described the potential opportunities as being "astronomical" in an article in the magazine Saskatchewan Business (Paul Martin, "The New Grain Strain", Saskatchewan Business, Aug. 1984, P. 9). And indeed the potential business opportunities in the value added processing of high starch crops may be Saskatchewan's ace in the hole.

The removal of the Crow Rate was important to the development of such an industry in Saskatchewan. However, there is no guarantee that this is all that is necessary. Resistance to change remains the greatest obstacle to the development of an extensive value added processing industry in Saskatchewan. The type of change necessary to make such an industry a reality is a fundamental shift in the attitudes of Saskatchewan farmers and businessmen. We must realize that our greatest opportunities no longer lie in producing the best but rather in that which will return the most.

NOTES

1. These costs and figures given are approximates. Due to the constantly fluctuating price of grains and the "safety net" proviso in Bill C-155, it is difficult to give a fixed ratio for freight costs as a percentage of the price of a tonne of grain but it is currently about 15%. As of December 30, 1984, with the price of 1 tonne of No. 1 cw 13.5% (export) at $205 per tonne, the following shipping rates applied for 1 tonne of grain:

   1) Saskatoon to Thunder Bay
      Producer cost $ 7.57
      Government subsidy $17.33

   2) Saskatoon to Vancouver
      Producer cost $ 8.58
      Government subsidy $19.66

   3) Saskatoon to Churchill
      Producer cost $ 7.31
      Government subsidy $16.75

   (These figures were provided by the Canadian Transport Commission)

2. Wheat provides 65% of the Agricultural income in the province of Saskatchewan according to the Government of Saskatchewan's 1983 Economic Review.

3. According to figures provided by Richard Downy in his thesis on the effects of the Crow Rate removal on the Western Canadian economy.

4. E.W. Tyrchniewicz, "Western Grain Transportation Initiatives: Where Do We Go From Here?" in The Canadian Journal of Agricultural Economics, No. 32, July 1984, p. 258.

5. IBID.

6. Globe & Mail, November 16, 1984.

7. Richard Schoney of Agricultural Economics, University of Saskatchewan, explores this situation in a report he prepared for United Grain Growers in December 1984.
8. These figures come from the master's thesis of Richard Downy and are in 1980 dollars.
9. The exact formula can be found in the recommendations section of his report, Western Grain Transportation, p. V-18.
10. According to the management of the terminal, the percentage varies according to the type of grain and the make up of the dockage.
11. The Port of Churchill has an extremely short shipping season and as a result must load as speedily as possible. Also there is no local market for the screenings and they must be shipped back to market, slowing movement of grain to the port and increasing costs.
12. c.f. a paper by William A. Kerr, Department of Economics, The University of Alberta, The Changing Economics Of The Western Livestock Industry.
13. IBID.
14. W. Furtan et al., The Canadian Rapeseed Industry: The Economic Implications Of Changes In Transportation And Tariff Costs, Saskatoon: Department Agricultural Economics, University of Saskatchewan, 1978, p. 2-10.